KELLY-DEYONG
SOUND CORPORATION LTD.

Kelly

DEYONG

1972 ANNUAL REPORT

BOARD OF DIRECTORS

B. N. TESSLER
Managing Director

R. L. McQUARRIE
Secretary & Director

KARL STEIN
Director

JACQUES BARBEAU
Director

GENERAL OFFICES

2185 West Broadway, Vancouver, B.C., Canada
Telephone: (604) 736-6481

RETAIL LOCATIONS

540 Granville St., Vancouver, B.C.
2185 West Broadway, Vancouver, B.C.
2714 West Broadway, Vancouver, B.C.
2617 West Fourth Ave., Vancouver, B.C.
Oakridge Shopping Centre, Vancouver, B.C.
Park Royal Shopping Centre, Vancouver, B.C.
611 Columbia St., New Westminster, B.C.
22 Victoria St., Nanaimo, B.C.
648 Yates St., Victoria, B.C.
Parkwood Shopping Centre, Prince George, B.C.
10068 Jasper Ave., Edmonton, Alta.
110 — 8th Ave. S.W., Calgary, Alta.
322 Yonge St., Toronto, Ont.

AUDITORS

Deloitte, Haskins & Sells,
1100 - 675 West Hastings St., Vancouver, B.C.

REGISTRAR AND TRANSFER AGENT

Yorkshire & Canadian Trust Ltd.,
900 West Pender St., Vancouver, B.C.

KELLY-DEYONG SOUND CORPORATION LTD.
and Subsidiary Companies

FINANCIAL HIGHLIGHTS

	1972	1971
Gross Sales	**$4,044,892**	$3,486,618
Earnings: See Consolidated Financial Statements	**$ 122,122**	$(915,510)
Net Earnings per Common Share See Note 8 of Consolidated Financial Statements	**$0.24**	$(1.76)
Working Capital	**$ 100,760**	$(109,925)
Total Assets	**$2,473,464**	$1,521,084
Common Shares Outstanding	**522,500**	522,500

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REPORT TO SHAREHOLDERS

It is my pleasure, on behalf of the Board of Directors, to submit this annual report detailing the progress of Kelly-Deyong Sound Corporation Ltd. for the fiscal period ended February 29, 1972.

"Progress" was indeed an apt description for your company in this period as we laid the groundwork for what has proved to be a dramatic turnabout of your company's financial affairs.

★ ★ ★

Your company, in the past fiscal year, was able to record a net income of $122,122 on sales of $4, 044, 892, after including extraordinary income items amounting to $271, 554.

In contrast, your company in 1971 recorded a net loss of $915,510 after including extraordinary loss items of $298,572 on total sales of $3,486,618.

★ ★ ★

Kelly-Deyong Sound Corporation Ltd. in 1972, meanwhile, showed earnings of 24 cents per share as compared to a net loss of $1.76 per share the preceding year.

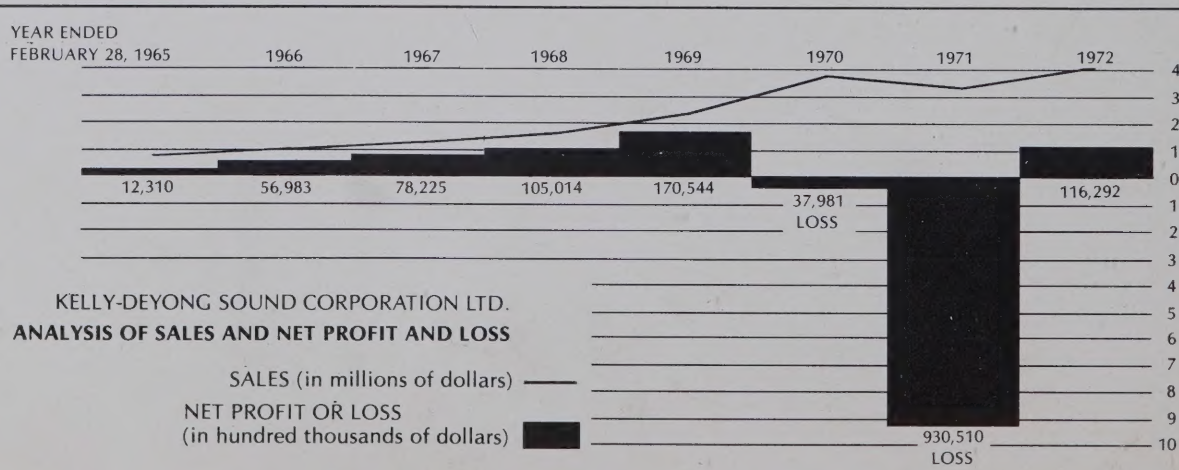
This vastly improved financial picture — as the accompanying graph shows — can be directly attributed to the change of overall policies instituted from the date of takeover by Steintron International Electronics Ltd. of Vancouver, B.C., in May, 1971.

★ ★ ★

Steintron, a diversified entity led by a proven and innovative management team, implemented a number of changes and programs which enabled Kelly-Deyong to completely reverse its financial course and become the increasingly viable company it is today.

The Steintron management and new Board of Directors of Kelly-Deyong:

- Effected a host of economies, including closure of six money-losing retail outlets in order to concentrate efforts only upon stores in high traffic areas, staffing them with highly-qualified managers and personnel of proven sales and promotional ability;
- Negotiated a contract under which Kelly-Deyong exclusively markets in Canada the products of Japan's prestigious Akai Electric Co. Ltd., one of the world's foremost manufacturers of tape recorders, tape decks, amplifiers and speaker systems.
  (Akai products are of such quality that — coupled with our aggressive merchandising methods — we are confident the exclusive contract will result in additional sales of approximately $1.5 million during the next fiscal year);
- Cut down the number of brands retailed in the audio field, emphasizing Akai products, the Kelly-Deyong "Ultimate" house brand of audio equipment and accessories, and other selected brands such as KLH, Sony and Dual;
- Reactivated and restructured Pro Sound Distributors Ltd., a wholly-owned subsidiary of Kelly-Deyong, in order to market the Akai and Ultimate lines of products;



- Established Pro Sound sales offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, principally to market the audio products in high fidelity and department stores across Canada;
- Implemented new purchasing policies ensuring that the Kelly-Deyong inventories are always diversified and current, resulting in vigorous sales which enabled the company to maintain its position as one of the top record outlets in B.C.;
- Established closer liaison with recording and sound equipment companies, resulting in co-operative advertising agreements which have cut by a substantial margin Kelly-Deyong's own advertising and promotional expenditures;
- Reached an agreement with Kelly-Deyong creditors existing at date of takeover, thereby enabling the company to re-establish a cash flow as well as providing an extraordinary income item of $254,378.

★ ★ ★

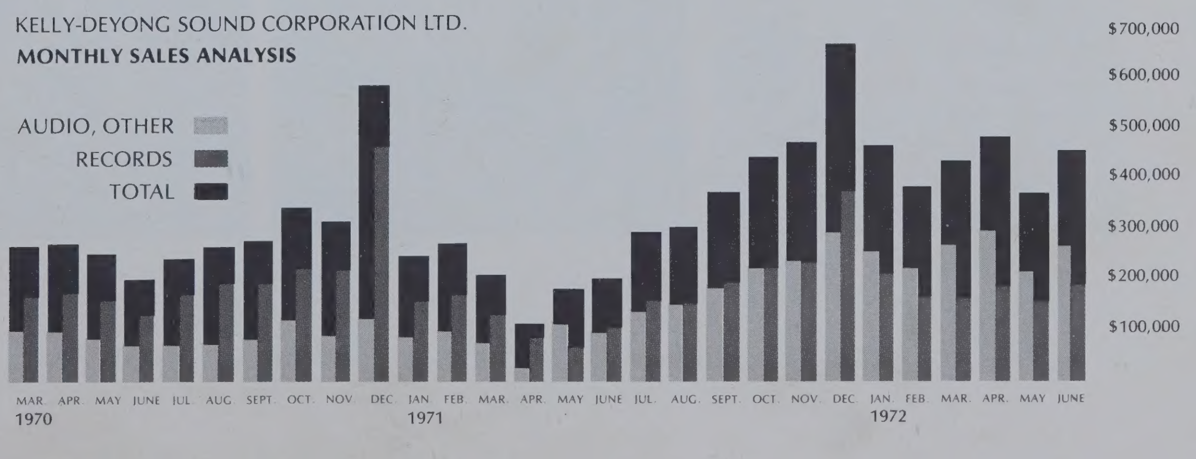
Kelly-Deyong, subsequent to the initial programs put into effect by the company's new directors and senior staff, also is in the process of establishing a chain of "Stereo Mart" franchise stores which will be available to businessmen on a lease/purchase/royalty basis.
Your company also is pleased to report it has established two new audio retail stores in high traffic areas of Toronto (322 Yonge St.) and Calgary (110 - 8th St., S.W.).
These new outlets increase to 13 our retail stores serving the public.

★ ★ ★

Speaking of sales, we reported in a letter to shareholders dated August, 1971, that your new Board of Directors felt there would be "considerable progress" in this area.
Such optimism has been justified, as the accompanying sales graph for the past two years will attest.
Stringent cost controls . . . innovative but economic planning . . . our exclusive contract with Akai and the unstinting cooperation of our creditors and employees . . . these are all factors which have helped Kelly-Deyong Sound Corporation Ltd. establish its new financial trend.
In conclusion, we believe your company as it is now structured has the ability to reach its goals of financial stability, steady growth and satisfactory earnings.

Respectfully submitted
on behalf of the Board,

Ben N. Tessler,
Managing Director.



"THE EYES AND EARS OF THE WORLD ARE ON AKAI . . ."

This phrase, taken from a corporate brochure of the Akai Electric Company Ltd./Akai Trading Company Ltd., is no idle boast.

Akai, with whom Kelly-Deyong Sound Corporation has had an exclusive marketing contract since September, 1971, is a world leader in the design and manufacture of tape recorders, audio equipment and related items.

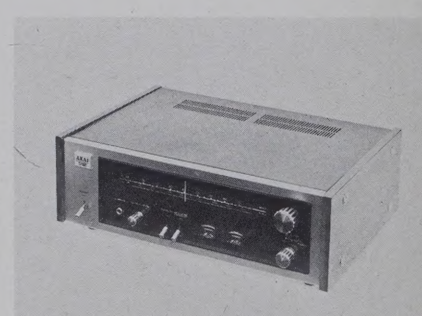
The Tokyo-based firm, established in 1929, today employs more than 2,000 persons at a bustling plant which covers some 376,000 square feet.

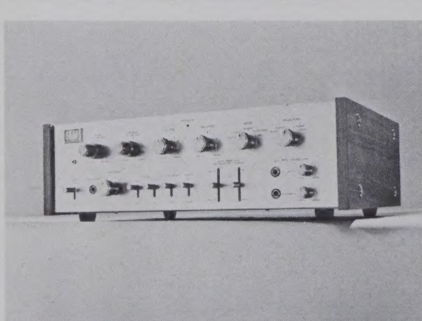
The accomplishments of Akai's superbly-trained, ingenious engineers and technicians result in annual sales of more than $60 million in 110 countries throughout the world.

Akai firmly believes in intensive and professional "after sales" service for its customers, a business principle to which Kelly-Deyong also has long-subscribed. Thus, we are pleased that Akai has sent to Canada a resident electrical engineer to ensure the continuing satisfaction of the Kelly-Deyong customers.

The strong Kelly-Deyong sales force has developed a comprehensive network of dealerships across Canada for the marketing of the entire Akai line, and we are confident this will result in substantial increases in both sales and earnings during the coming years.

THE LATEST FROM AKAI . . .





AUDITOR'S REPORT

To the Shareholders of
Kelly-Deyong Sound Corporation Ltd.:

We have examined the consolidated balance sheet of Kelly-Deyong Sound Corporation Ltd. and its subsidiary companies as at February 29, 1972 and the consolidated statements of income and deficit and of source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at February 29, 1972, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Deloitte, Haskins & Sells
Auditors

June 9, 1972

KELLY-DEYONG SOUND CORPORATION LTD.
and Subsidiary Companies
(Under the Companies Act, British Columbia)

CONSOLIDATED BALANCE SHEET AS AT FEBRUARY 29, 1972

(with 1971 figures for comparison)

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash	$ 45,308	$ 3,921
Accounts receivable - trade (less allowance for possible losses - $120,700, 1971 - $161,800)	339,898	233,642
Due from shareholder	-	4,405
Inventory - at lower of cost or net realizable value	1,789,435	805,351
Prepaid expenses	6,131	34,712
Total current assets	2,180,772	1,082,031
INVESTMENTS:		
Refundable deposits	2,086	751
Mortgage receivable	10,976	11,841
Total investments	13,062	12,592
FIXED ASSETS - at cost (Note 2)	399,842	531,548
Less accumulated depreciation and amortization	183,312	141,287
Net fixed assets	216,530	390,261
DEFERRED INCOME TAXES (Note 3)	63,100	36,200
TOTAL	$2,473,464	$1,521,084

APPROVED BY THE BOARD:

K. Erwin .... Director

.... Director

The accompanying notes are an integr

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
CURRENT LIABILITIES:		
Bank indebtedness (Note 4)	$ 700,000	$ 390,300
Accounts payable and accrued charges	653,812	719,236
Current portion of long-term debt	8,047	10,911
Due to directors	9,387	-
Due to parent company	708,766	-
Mortgage - 15% due July 31, 1971 secured on land and buildings	-	71,509
Total current liabilities	2,080,012	1,191,956
DEFERRED REVENUE	-	5,500
LONG-TERM DEBT (Note 5):		
Mortgage - 9 3/4%	-	46,699
Conditional sale agreements payable	12,589	21,052
	12,589	67,751
Less current portion	8,047	10,911
Long-term debt	4,542	56,840
SHAREHOLDERS' EQUITY:		
Share capital (Note 6):		
Authorized:		
1,000,000 shares of no par value		
Issued and fully paid:		
522,500 shares	1,220,279	1,220,279
Deficit (Note 7)	(831,369)	(953,491)
Net shareholders' equity	388,910	266,788
TOTAL	$2,473,464	$1,521,084

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KELLY-DEYONG SOUND CORPORATION LTD.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT

FOR THE YEAR ENDED FEBRUARY 29, 1972 (with 1971 figures for comparison)

	1972	1971
SALES	$4,044,892	$3,486,618
COST OF SALES	3,134,293	2,674,277
GROSS MARGIN	910,599	812,341
EXPENSES:		
Operating, selling and administrative	1,032,439	1,397,849
Depreciation and amortization	60,313	59,154
Interest on long-term debt	1,834	19,669
Other interest	36,580	31,421
Total expenses	1,131,166	1,508,093
LOSS FROM OPERATIONS	220,567	695,752
OTHER INCOME	31,835	43,649
LOSS BEFORE RECOVERY OF INCOME TAXES	188,732	652,103
RECOVERY OF INCOME TAXES (Note 3):		
Current	-	8,015
Deferred	39,300	27,150
Total recovery	39,300	35,165
LOSS BEFORE EXTRAORDINARY ITEMS (Note 8)	149,432	616,938
EXTRAORDINARY ITEMS (Note 9):		
Gain on sale of land and buildings	17,176	-
Loss on disposal of inventory	-	(10,000)
Loss on disposal of leasehold improvements	-	(25,468)
Fire loss (Note 7)	-	(35,662)
Other assets written off	-	(227,442)
Gain arising from arrangements with trade creditors	254,378	-
Total extraordinary items	271,554	(298,572)
NET INCOME (LOSS) FOR THE YEAR (Note 7 and 8)	122,122	(915,510)
DEFICIT AT BEGINNING OF THE YEAR, AS RESTATED (Note 7)	953,491	37,981
DEFICIT AT END OF THE YEAR	$ 831,369	$ 953,491

The accompanying notes are an integral part of the financial statements

KELLY-DEYONG SOUND CORPORATION LTD.
and Subsidiary Companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED FEBRUARY 29, 1972 (with 1971 figures for comparison)

	1972	1971
SOURCE OF FUNDS:		
Operations:		
Net income for the year	$122,122	$ -
Depreciation	60,313	-
Loss on disposal of other assets	2,410	-
Deferred income taxes (Note 3)	(39,300)	-
Gain on sale of land and buildings (Note 9)	(17,176)	-
Total funds provided from operations	128,369	-
Issue of share capital for cash	-	2,500
Proceeds on sale of fixed assets	147,974	21,671
Mortgage receivable	865	-
Long-term refundable deposits	-	3,386
Increase in long-term debt - net of repayments	-	6,325
Decrease in instalment accounts receivable	-	43,973
Total source of funds	277,208	77,855
APPLICATION OF FUNDS:		
Operations:		
Net loss for the year	-	915,510
Deferred income taxes (Note 3)	-	52,600
Depreciation	-	(59,154)
Other assets written off (Note 9)	-	(227,442)
Loss on disposal of fixed assets:		
Included in fire loss (Note 7)	-	(4,310)
Disposal of leasehold improvements (Note 9)	-	(50,918)
Total funds applied to operations	-	626,286
Purchase of fixed assets	7,390	149,254
Long-term debt repayments	52,298	-
Mortgage receivable	-	11,841
Long-term refundable deposits	1,335	-
Decrease in deferred revenue	5,500	35,145
Total application of funds	66,523	822,526
INCREASE (DECREASE) IN WORKING CAPITAL FOR THE YEAR	210,685	(744,671)
WORKING CAPITAL (DEFICIENCY) AT BEGINNING OF THE YEAR	(109,925)	634,746
WORKING CAPITAL (DEFICIENCY) AT END OF THE YEAR	$100,760	$(109,925)

The accompanying notes are an integral part of the financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 29, 1972

1 PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Kelly-Deyong Sound Corporation Ltd. and its wholly-owned subsidiary companies. All intercompany balances and transactions between consolidated companies have been eliminated.

2. FIXED ASSETS:

The major categories of fixed assets and related depreciation and amortization at February 29, 1972 are as follows:

	Fixed Assets	Accumulated Depreciation and Amortization	Rates
Furniture and fixtures	$187,952	$ 76,475	10-20%
Automotive and other equipment	41,123	13,278	20%
Leasehold improvements	170,767	93,559	Term of lease
Total	$399,842	$183,312	

It is the company's practice to provide for depreciation on a straight-line basis at the rates shown above, and to provide for amortization of leasehold improvements on a straight-line basis over the terms of the respective leases.

3. INCOME TAXES:

The company and its subsidiary companies had at February 29, 1972 losses available for application to future years taxable income aggregating approximately $836,000. The potential reduction in future income taxes attributable to these losses has not been reflected in the accounts.

The undepreciated capital cost of fixed assets exceeds the related net book value at February 29, 1972 by approximately $126,100. The potential reduction in future income taxes of $63,100 which will result from claiming capital cost allowance for tax purposes in excess of depreciation charged in the accounts has been reflected in the accounts as Deferred Income Taxes.

4. BANK INDEBTEDNESS:

The bank indebtedness is secured by an assignment of trade accounts receivable, by the loss proceeds of certain fire insurance policies, and by a floating charge debenture totalling $500,000 on the assets of certain of the companies.

Under the terms of the debenture agreement the company is required to obtain the consent of the bank in order to declare or pay dividends in excess of $15,000 on the share capital of the company.

5. LONG-TERM DEBT:

The conditional sales agreements are payable in monthly instalments, aggregating $619, to retire the respective balances during 1973 to 1976. The agreements are secured by certain equipment.

6. SHARE CAPITAL:

During the year ended February 29, 1972 the directors authorized options for 7,000 shares of the share capital of the company to various employees exercisable at $0.44 per share during the year following the completion of seven years continuous service with the company.

7. FIRE LOSS:

A subsidiary company experienced extensive fire damage during the year ended February 28, 1971. All expenses relating to the fire and the cost of destroyed and damaged inventories were charged to the fire loss, offset by the proceeds of insurance coverage received to February 28, 1971. Additional proceeds in the amount of $15,000 have been received during the year ended February 29, 1972, and have been applied to reduce the fire loss as previously reported. The net loss for the year ended February 28, 1971 and the deficit at February 28, 1971 previously reported as $930,510 and $968,491 respectively have been restated to reflect this adjustment.

8. EARNINGS PER SHARE:

	1972	1971 As restated
Loss before extraordinary items	$(0.28)	$(1.19)
Extraordinary items	0.52	(0.57)
Net income (loss) for the year	$0.24	$(1.76)

The above calculations are based on the weighted average number of shares outstanding in the respective years. The figures for 1971 have been restated to give effect to the adjustment made to the previously reported fire loss (Note 7).

If it were assumed that the outstanding share options referred to in Note 6 were exercised, the fully diluted earnings per share would not differ materially.

9. EXTRAORDINARY ITEMS:

The company and certain of its subsidiary companies have entered into agreements with their major trade creditors during the year ended February 29, 1972. The agreements essentially limit the liability of the company in payment of such debts to either 50% or 60% of the balance depending on the nature of the debt outstanding. The gain arising from such arrangements with trade creditors amounted to $254,378, which has been recorded as an extraordinary item of income in the Statement of Income and Deficit.

During the year ended February 29, 1972, the parent company and one of its subsidiary companies discontinued operations in four retail outlets in Edmonton and one retail outlet in Regina through sale of fixed assets and inventories and assignment of the related leases. The company also discontinued operations in one retail outlet in Victoria. The consolidated financial statements as at February 28, 1971 gave effect to these transactions as though they had occurred during the year ended February 28, 1971. The disposal of applicable fixed assets resulted in a loss of $25,468, net of deferred income taxes of $25,450. The disposal of inventories resulted in a loss of $10,000. These amounts have been disclosed as extraordinary losses in the Statement of Income and Deficit.

The company has sold land and buildings during the year ended February 29, 1972 and has realized a gain of $17,176, net of deferred income taxes of $12,400.

Other assets represented by incorporation and financing costs of $49,289 and excess of cost of shares in subsidiaries over underlying net assets at dates of acquisition of $178,153 were written off during the year ended February 28, 1971 as extraordinary items.

10. LEASES:

The company has entered into lease contracts on certain properties for varying periods of up to ten years including certain renewal options.

The rental expense incurred under these leases aggregated $152,674 for the year ended February 29, 1972; 1971 - $159,301. The annual minimum rentals for future years approximate $174,600.

11. CONTINGENT LIABILITY:

As at February 29, 1972, a subsidiary company was contingently liable to the extent of approximately $10,000 (1971 - $16,500) for recourse, under certain circumstances, on the sale of conditional sales contracts and lease purchase agreements.

12. STATUTORY INFORMATION:

The total remuneration received as a director, officer or employee of the company and its subsidiary companies by those who were directors of the company during the year was $51,276.